BB&T Scott & Stringfellow

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NOVEMBER 2018

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	Price	YTD	1 Month	3 Months
Dow Jones	25,379	2.67%	-3.31%	1.26%
S&P 500	2,769	3.56%	-4.67%	-1.27%
NASDAQ	7,485	8.43%	-5.92%	-4.35%
Russell 2000	1,561	1.64%	-8.78%	-8.26%
Wilshire 5000	28,622	3.05%	-5.31%	-2.42%

Data as of: October 18, 2018
Source: Bloomberg

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This Thanksgiving, we would like to express our sincere gratitude for the trust you have placed in us. We wish you and yours a happy and healthy holiday season.

October has proved to be a volatile month for equity investors. The S&P 500 (the market) traded down almost 7% from October 3 to October 11, which almost put us in official correction territory (down 10%). As of this writing the market has recovered 2% of that loss. During the selloff the VIX (CBOE Volatility Index) spiked from 11 to 25, a magnitude move we haven't seen since February. For perspective, we had an almost 9% correction from late January to the first of February of this year and a 7% correction in March. Based on the trajectory of the market since 2016, we're not surprised to see such corrections, even if the speed of the selloff was unnerving. The S&P 500 is up around 50% since February of 2016. There are reasons to be cautious. The Fed is increasing interest rates to keep employment optimal and inflation under control, but also to "normalize" interest rates. So the risk is that The Fed overshoots/gets it wrong. Wages are rising, which is a positive for wage earners, but can create excess inflation. The rise since the beginning of the year in the 10-Year Treasury yield from 2.43% to 3.16% has pushed up the cost of borrowing and created shifts in equity and fixed income markets. The rising dollar, increasing oil price, and trade disputes with China are helping create uncertainty.

As always it is important to weigh the positives with the negatives. Even though the 10-Year has moved higher, it's still relatively low (the average yield over the past 20 years is 3.6%). The economy is growing at a healthy clip – the latest quarterly growth was 4.2%. Earnings for S&P 500 companies are projected to grow almost 20% this year and 10% next. The all-important consumer is healthy, as consumer confidence is at an almost 20-year high and some benefits from tax cuts have yet to be realized. The market P/E ratio has pulled back two multiple points and is now close to the five-year average of 16X. After weighing the positives and negatives, we continue to be favorably disposed towards equities. When we get sudden and severe selloffs like these, we are reminded that a good investment strategy, which focuses on high quality stocks, balanced sector allocations and reasonable valuations, is the best way to navigate volatility.

Source: BB&T Scott & Stringfellow Private Client Research – October 18, 2018

ARE TREASURIES RIGHT FOR YOUR PORTFOLIO?

U.S. Treasuries are usually considered the "safest" type of bonds because the interest and principal payments are guaranteed by the "full faith and credit" of the U.S. government. Treasuries are bonds the federal government issues to finance its operations, with maturities ranging from several months to 30 years. Interest is exempt from state and local taxes, but not from federal tax. Because of their minimal default risk, Treasuries carry very low yields. Types of Treasuries you may want to learn more about include:

- Treasury bills, or "T-bills," have the shortest maturities at four weeks, 13 weeks, 26 weeks and one year. They are bought at a discount to their $10,000 face value, and the buyer receives the full $10,000 at maturity. The difference reflects the interest earned.
- Treasury notes mature in two to 10 years. Interest is paid semiannually at a fixed rate. The minimum investment can be $1,000 or $5,000, depending on maturity.
- Treasury bonds are issued with maturities ranging from 10 to 30 years. As with Treasury notes, they pay interest semiannually, and are sold in $1,000 denominations.
- Zero-coupon bonds, also known as strips or zeros, are Treasury-based securities sold by brokers at a deep discount and redeemed at full face value when they mature in six months to 30 years. You receive interest when the bond matures, but you pay taxes each year on the "phantom interest" you earn (based on the bond's market value), making them best suited to be held in tax-deferred accounts.
- Inflation-indexed Treasuries pay a real rate of interest on a principal amount that rises or falls with the consumer price index. You don't collect the inflation adjustment to your principal until the bond matures or you sell it, but you owe federal income tax on that phantom amount each year – in addition to tax on the interest you receive currently. Like zeros, inflation bonds are best held in tax-deferred accounts.

We are here to help you with any questions or concerns you may have. Please contact us today for further information or to discuss your current plan.

STRINGS ATTACHED: HOW ONE CLIENT PREPARES HER GRANDCHILDREN TO MANAGE WEALTH

Our clients sometimes ask about meaningful gift ideas for their grandchildren, instead of the toys, clothes and gadgets. One client came up with a solution that is working well in her family. She wasn't good at picking out the latest craze in toys or electronics, so she had resorted to giving money to each child. Now she gives money with "strings attached" – and makes it fun by wrapping a ribbon around the money and literally taping three strings to it. She includes three envelopes, a piece of paper and a fun pen or pencil. Then together, she and her grandchildren sit down and make a plan for how this money will be used.

String No. 1 – One-fourth of the money must go to helping others. A strong commitment to philanthropy is something many of us hope to pass on. Older children will hopefully give this some serious thought and give to a charity that has meaning to them.

String No. 2 – One-fourth of the money must be invested. Encourage them to invest in companies they will feel good about supporting. Again, they may have learned to consider this ahead of time, and may even research companies whose products they especially like. It's never too early to start investing, and your grandchildren will love to see their money grow.

String No. 3 – The remaining half of the money is for the grandchild to spend or save as he or she chooses. If a shopping trip is involved, schedule an outing and make a day of it. The time you spend with your grandchildren is invaluable and, hopefully, they are learning money management skills and values that will prove beneficial to them in years to come.